

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

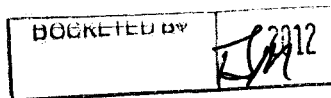
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AZ CORP COMMISSION

DOCKET CONTROL

NOV 29 2012



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TO: THE COMMISSION

FROM: Utilities Division

DATE: November 29, 2012

RE: JOHNSON UTILITIES L.L.C.'S CENTRAL ARIZONA GROUNDWATER REPLENISHMENT DISTRICT ("CAGR") ADJUSTOR RESET (DOCKET NO. WS-02987A-08-0180)

I. Introduction

On October 25, 2012, pursuant to Decision No. 71854 (August 24, 2010) and as modified by Decision No. 73284 (July 30, 2012), Johnson Utilities L.L.C. ("Johnson" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District ("CAGR") adjustor fees.

Decision No. 71854 authorized the Company to implement an adjustor mechanism, subject to certain conditions, to recover the costs paid to the CAGR for replenishment of excess groundwater. The conditions as modified by Decision No. 73284 require the Company to submit, by October 25 of each year, for Commission consideration, its proposed CAGR fees for the next twelve-month period (along with documentation from the relevant state agencies to support the calculations), to apply to all water sold after December 1.¹ Accordingly, the Company made the instant filing.

II. Background

The CAGR was established by the Arizona legislature to serve as a groundwater replenishment entity for its members and provides a mechanism for designated water supply providers such as Johnson to demonstrate a 100-year water supply. Members pay the CAGR to replenish any groundwater pumped by the member that exceeds the specified pumping limits. The CAGR is recognized as an important tool in Arizona's groundwater conservation efforts.

III. Annual Membership Dues

Subsequent to the implementation of the Company's initial adjustor, the Arizona legislature enacted Arizona Revised Statutes § 48-3779, which authorized the CAGR to charge annual membership dues ("AMDs") "on all parcels of member lands and on all municipal providers having a member service area," in addition to the charges for replenishment of excess groundwater. The sole purpose of the AMDs is "to pay costs associated with the acquisition,

¹ Decision No. 73284, page 3, lines 2-8.

lease or exchange of water or water rights and development of infrastructure necessary for the district to perform its replenishment obligations.”²

The Commission in Decision No. 72634, concluded that the inclusion of the AMDs in the calculation of the CAGRDR adjustor is appropriate and in the public interest.

IV. Calculation of the CAGRDR Adjustor Fees

Decision No. 71854 specified nine conditions regarding the CAGRDR Adjustor. Condition No. 6 ordered that the adjustor fees be calculated as follows: “The total CAGRDR fees paid by the Company for the most current year . . . shall be divided by the gallons sold by the Company in that year to determine a CAGRDR adjustor fee per 1,000 gallons.”³

Condition Nos. 2 and 3 ordered that the Company “place all CAGRDR monies collected from customers in a separate, interest bearing account,” only to be withdrawn for the annual payment to the CAGRDR, due on October 15 of each year.⁴

In addition, although the order did not contain an explicit provision for a true-up, the parties were in agreement that such an annual true-up would occur at the time of the adjustor reset each year. This understanding was confirmed by the Commission’s provision for a true-up in Decision No. 72634.⁵

The Company proposes a rate of \$1.51 per thousand gallons (“kgal”) for its Phoenix AMA, and a rate of \$0.31 per kgal for its Pinal AMA. Staff has reviewed the Company’s proposed calculations and the supporting documentation submitted with its request. Staff agrees with the methodology employed by the Company to calculate the true-up and the proposed adjustor rate, as discussed below.

Phoenix AMA

True-up

The CAGRDR invoice to Johnson for the 2010 annual replenishment assessment was \$1,921,311.00. Johnson reports that, as of September 30, 2012, the Company will have total collections and interest of \$1,683,480.23.⁶

² Arizona Revised Statutes § 48-3779(B).

³ Decision No. 71854, page 43 starting on line 23 and continuing through page 44, line 2.

⁴ Decision No. 73284, page 3, lines 2-8.

⁵ Decision No. 72634, page 4, lines 18-20.

⁶ Company’s application dated October 25, 2012.

This true-up calculation indicates an under-collection of approximately \$410,812.48 as follows:

A	2009 under-collection of CAGRD invoice	\$ 172,981.71
B	2010 CAGRD invoice	1,921,311.00
C	Less: Collections and interest through September 2012	\$ <u>1,683,480.23</u>
D	2010 CAGRD under-collection [A+B-C]	\$ <u>410,812.48</u>

Adjustor Fee

The CAGRD invoice to Johnson for 2011 indicates total fees and dues of \$3,070,866.12. The Company's 2011 annual report as submitted to ADWR indicates annual water sales (in kgal) of 2,299,872.65.

Staff's calculation of the new CAGRD adjustor fee is shown below. The fee is \$1.51.

A	2011 CAGRD invoice	\$ 3,070,866.12
B	Plus under-collection from 2010	<u>410,812.48</u>
C	Amount to be recovered [A+B]	3,481,678.60
D	Total kgal sold in 2011	<u>2,299,872.65</u>
E	Charge per kgal [C ÷ D]	\$ <u>1.51</u>

Pinal AMA

True-up

The CAGRD invoice to Johnson for the 2010 annual replenishment assessment was \$53,963.00. Johnson reports that, as of September 30, 2012, the Company will have total collections and interest of \$55,133.76.⁷

This true-up calculation indicates an under-collection of approximately \$2,561.59 as follows:

A	2009 under-collection of CAGRD invoice	\$ 3,732.35
B	2010 CAGRD invoice	53,963.00
C	Less: Collections and interest through September 2012	\$ <u>55,133.76</u>
D	2010 CAGRD under-collection [A+B-C]	\$ <u>2,561.59</u>

⁷ Company's application dated October 25, 2012.

Adjustor Fee

The CAGR invoice to Johnson for 2011 indicates total fees and dues of \$72,995.62. The Company's 2011 annual report as submitted to ADWR indicates annual water sales (in kgal) of 241,963.92.

Staff's calculation of the new CAGR adjustor fee is shown below. The fee is \$0.31.

A	2011 CAGR invoice	\$ 72,995.62
B	Plus under-collection from 2010	<u>2,561.59</u>
C	Amount to be recovered [A+B]	75,557.21
D	Total kgal sold in 2011	<u>241,963.92</u>
E	Charge per kgal [C ÷ D]	\$ <u>0.31</u>

V. Conclusions and Recommendations

Staff concludes that the Company has duly filed the appropriate request to revise the CAGR adjustor fees, as required by Decision No. 73284.

Staff concludes that inclusion of the AMDs in the calculation of the CAGR adjustor fees is appropriate.

Staff recommends approval of the CAGR adjustor fees as described herein.

Staff recommends that the Company file, within 7 days of a Decision in this matter, CAGR adjustor fee tariffs consistent with the rates approved herein.

Staff recommends that the Company notify its customers of the CAGR adjustor fee tariffs approved herein within 30 days from the effective date of the Decision.

Staff recommends that the CAGR adjustor fees authorized herein become effective for all water sold after December 1, 2012.



Steven M. Olea
Director
Utilities Division

SMO:JA:sms\RRM

Originator: James Armstrong

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 GARY PIERCE

Chairman

3 BOB STUMP

Commissioner

4 SANDRA D. KENNEDY

Commissioner

5 PAUL NEWMAN

Commissioner

6 BRENDA BURNS

Commissioner

8 JOHNSON UTILITIES L.L.C.'S CENTRAL
ARIZONA GROUNDWATER

9 REPLENISHMENT DISTRICT ("CAGR")

10 ADJUSTOR RESET (DOCKET NO. WS-
02987A-08-0180)

DOCKET NO. WS-02987A-08-0180

DECISION NO. _____

ORDER

12 Open Meeting

13 December 11 and 12, 2012

14 Phoenix, Arizona

15 BY THE COMMISSION:

16 **FINDINGS OF FACT**

17 **Introduction**

18 1. On October 25, 2012, pursuant to Decision No. 71854 (August 24, 2010) and as
19 modified by Decision No. 73284 (July 30, 2012), Johnson Utilities L.L.C. ("Johnson" or
20 "Company") filed with the Arizona Corporation Commission ("Commission") the Company's
21 proposed Central Arizona Groundwater Replenishment District ("CAGR") adjustor fees.

22 2. Decision No. 71854 authorized the Company to implement an adjustor mechanism,
23 subject to certain conditions, to recover the costs paid to the CAGR for replenishment of excess
24 groundwater. The conditions as modified by Decision No. 73284 require the Company to submit,
25 by October 25 of each year, for Commission consideration, its proposed CAGR fees for the next
26 twelve-month period (along with documentation from the relevant state agencies to support the
27
28

calculations), to apply to all water sold after December 1.¹ Accordingly, the Company made the instant filing.

Background

3. The CAGR D was established by the Arizona legislature to serve as a groundwater replenishment entity for its members and provides a mechanism for designated water supply providers such as Johnson to demonstrate a 100-year water supply. Members pay the CAGR D to replenish any groundwater pumped by the member that exceeds the specified pumping limits. The CAGR D is recognized as an important tool in Arizona's groundwater conservation efforts.

Annual Membership Dues

4. Subsequent to the implementation of the Company's initial adjustor, the Arizona legislature enacted Arizona Revised Statutes § 48-3779, which authorized the CAGR D to charge annual membership dues ("AMDs") "on all parcels of member lands and on all municipal providers having a member service area," in addition to the charges for replenishment of excess groundwater. The sole purpose of the AMDs is "to pay costs associated with the acquisition, lease or exchange of water or water rights and development of infrastructure necessary for the district to perform its replenishment obligations."²

5. The Commission in Decision No. 72634, concluded that the inclusion of the AMDs in the calculation of the CAGR D adjustor is appropriate and in the public interest.

Calculation of the CAGR D Adjustor Fees

6. Decision No. 71854 specified nine conditions regarding the CAGR D Adjustor. Condition No. 6 ordered that the adjustor fees be calculated as follows: "The total CAGR D fees paid by the Company for the most current year . . . shall be divided by the gallons sold by the Company in that year to determine a CAGR D adjustor fee per 1,000 gallons."³

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¹ Decision No. 73284, page 3, lines 2 through 8.

² Arizona Revised Statutes § 48-3779(B).

³ Decision No. 71854, page 43 starting on line 23 and continuing through page 44, line 2.

7. Condition Nos. 2 and 3 ordered that the Company “place all CAGR D monies collected from customers in a separate, interest bearing account,” only to be withdrawn for the annual payment to the CAGR D, due on October 15 of each year.⁴

8. In addition, although the order did not contain an explicit provision for a true-up, the parties were in agreement that such an annual true-up would occur at the time of the adjustor reset each year. This understanding was confirmed by the Commission’s provision for a true-up in Decision No. 72634.⁵

9. The Company proposes a rate of \$1.51 per thousand gallons (“kgal”) for its Phoenix AMA, and a rate of \$0.31 per kgal for its Pinal AMA. Staff has reviewed the Company’s proposed calculations and the supporting documentation submitted with its request. Staff agrees with the methodology employed by the Company to calculate the true-up and the proposed adjustor rate, as discussed below.

Phoenix AMA

True-up

10. The CAGR D invoice to Johnson for the 2010 annual replenishment assessment was \$1,921,311.00. Johnson reports that, as of September 30, 2012, the Company will have total collections and interest of \$1,683,480.23.⁶

11. This true-up calculation indicates an under-collection of approximately \$410,812.48 as follows:

A	2009 under-collection of CAGR D invoice	\$ 172,982.48
B	2010 CAGR D invoice	\$1,921,311.00
C	Less: Collections and interest through September 2012	<u>\$1,683,480.23</u>

⁴ Decision No. 73283, page 3, lines 2-8.

⁵ Decision No. 72634, page 4, lines 18-20.

⁶ Company’s application dated October 25, 2012.

D 2010 CAGR under- \$ 410,812.48
collection [A+B-C]

Adjustor Fee

12. The CAGR invoice to Johnson for 2011 indicates total fees and dues of \$3,070,866.12. The Company's 2011 annual report as submitted to ADWR indicates annual water sales (in kgal) of 2,299,872.65.

13. Staff's calculation of the new CAGR adjustor fee is shown below. The fee is \$1.51.

A	2011 CAGR invoice	\$ 3,070,866.12
B	Plus under-collection from 2010	<u>410,812.48</u>
C	Amount to be recovered [A+B]	3,481,678.60
D	Total kgal sold in 2011	<u>2,299,872.65</u>
E	Charge per kgal [C ÷ D]	\$ <u>1.51</u>

Pinal AMA

True-up

14. The CAGR invoice to Johnson for the 2010 annual replenishment assessment was \$53,963.00. Johnson reports that, as of September 30, 2012, the Company will have total collections and interest of \$55,133.76.⁷

15. This true-up calculation indicates an under-collection of approximately \$2,561.59 as follows:

A	2009 under-collection of CAGR invoice	\$ 3,732.35
B	2010 CAGR invoice	\$ 53,963.00
C	Less: Collections and interest through September 2012	<u>\$ 55,133.76</u>

⁷ Company's application dated October 25, 2012.

1	D	2010 CAGR under-collection	<u>\$ 2,561.59</u>
2		[A+B-C]	

3

4 **Adjustor Fee**

5 16. The CAGR invoice to Johnson for 2011 indicates total fees and dues of \$72,995.62.
 6 The Company's 2011 annual report as submitted to ADWR indicates annual water sales (in kgal)
 7 of 241,963.92.

8 17. Staff's calculation of the new CAGR adjustor fee is shown below. The fee is \$0.31.

9	A	2011 CAGR invoice	\$ 72,995.62
10	B	Plus under-collection from	<u>2,561.59</u>
11		2010	
12	C	Amount to be recovered	75,557.21
13		[A+B]	
14	D	Total kgal sold in 2011	<u>241,963.92</u>
15	E	Charge per kgal [C ÷ D]	\$ <u>0.31</u>

16 **Conclusions and Recommendations**

17 1. Staff concludes that the Company has duly filed the appropriate request to revise
 18 the CAGR adjustor fees, as required by Decision No. 73283.

19 2. Staff concludes that inclusion of the AMDs in the calculation of the CAGR adjustor
 20 fees is appropriate.

21 3. Staff recommends approval of the CAGR adjustor fees as described herein.

22 4. Staff recommends that the Company file, within 7 days of a Decision in this matter, the
 23 CAGR adjustor fee tariffs consistent with the rates approved herein.

24 5. Staff recommends that the Company notify its customers of the CAGR adjustor fee
 25 tariffs approved herein within 30 days from the effective date of the Decision.

26 6. Staff recommends that the CAGR adjustor fees authorized herein become effective
 27 for all billings after December 1, 2012.

28 ...

7. We find that Staff's conclusions and recommendations are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. The Company is a public water service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

2. The Commission has jurisdiction over the Company and the subject matter of the application.

3. Approval of the proposed CAGRD adjustor fees is consistent with the Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and applicable case law.

4. It is in the public interest to approve the Company's request for implementation of the CAGR adjustor fees as discussed herein.

ORDER

IT IS FURTHER ORDERED that the application by Johnson Utilities L.L.C. to implement new CAGR adjustor fees is approved for all customer billings for water sold after December 1, 2012.

IT IS FURTHER ORDERED that the CAGR adjustor fees for Johnson Utilities L.L.C. shall be \$1.51 per 1,000 gallons for the Phoenix AMA and \$0.31 per 1,000 gallons for the Pinal AMA.

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IT IS FURTHER ORDERED that Johnson Utilities L.L.C. docket with the Commission as a compliance matter, within seven (7) days of the effective date of this Decision, CAGR D adjustor fee tariffs consistent with the rates approved herein.

IT IS FURTHER ORDERED that Johnson Utilities L.L.C. shall notify its customers of the CAGR D adjustor fees approved herein within 30 days of the effective date of this Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:JA:sms

SERVICE LIST FOR: Johnson Utilities L.L.C.
DOCKET NO. WS-02987A-08-0180

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